International Conference on Research and Development in Science, Technology, Engineering, Management, Applied Sciences, Pharmacy, Education, Law and Humanities: The Futuristic Approach
ISSN: 2349-6002

Crowdfunding: A New Fund Raising Approach to Startup for Business

Gowripeddi Hari Kumar[1], Dr. N. Ramanjaneyulu[2]
[1]*Research Scholar, School of Management and Commerce, Career Point University, Kota, Rajasthan.*
[2]*Professor & Head, Department of MBA, Malla Reddy Engineering College (Autonomous), Hyderabad*

***Abstract* - Getting finance for business startup is most difficult and risk task for business creators. Finance in business is like blood, just as the human body is without blood, so is business without finance. There are many resources / ways to start a business. But in the beginning, it should be clear how much money is needed and when. Financial needs vary depending on the business model and the size and product. So many people are struggling, or fail to generate funds, in due to absence of relationship with industrialists or bank due to lack of sound financial tract record or pledge. This paper is going to study to examine the new trend in financing; that is crowdfunding, types and challenges of crowdfunding, fund raising platforms, funding for new companies and new entities and how it is helpful to capital deficit units.**

***Index Terms* – Startups, Funding Platforms, Pledge, Venture Capital.**

INTRODUCTION

Each crowdfunding website is required to attach information to the Entrepreneur and Founder to examine the full details about the product and the venture or goods and services. In general, businesses provide a variety of investments as well as product characteristics, development progress and roadmap for the future. Interested investors and donors look at the details on the website and consult with the manufacturer to provide funding through the website.
In 2008 global financial crisis has led to a decline in lending to the banking sector and at the same time confidence in the banking sector. New ideas, startups and other approaches meet the financing needs of existing small and medium enterprises (SMEs), as well as the development of digital technology and financial innovations that have given life to an alternative form of financing.

Internet platforms are very useful for establishing relationships between groups of supporters who are thinking of a new project and are willing to invest funds. Compared to the selection of the most authentic and quality services provided by banks, crowdfunding can be modified to suit individual needs and provide a more flexible approach to the SME sector for fundraising, where it plays a role in establishing better relationships between funding providers and fundraisers. As crowdfunding becomes an open market, a large number of people participate. They volunteer to assist in the funding of product and services. Instead, they expect no reward.
The Crowdfunding Platform is a website that allows managers, founders, implementers of new ideas and other project startups to raise funds through the open market and express details about projects. Supporters can review all the details of the project online and fund a project or topic of their choice. With the current digital technology many employers, donors and sponsors can easily log in to websites.
These websites are very helpful for entrepreneur's project promotion and fundraising. Crowdfunding strengthens the project's financial resource mobilization and finance methods. There have been three recent financial innovations, including corporation benefits and social bonds, as well as crowdfunding. The main purpose of these three financial innovations is to assist in the development of society and the innovations of individuals.

REVIEW OF LITERATURE

Lieser& Groh (2011)“Added that the company section searching business connexons with sales openings and hardware equipment for any of the parts on the web site is feasible. The innovation climate provides the ability to develop innovative goods, services and structures that better suit societal and environmental requirements in the overall crowdfunding ecosystem. The regulatory system portion contains the factors correlated with sound legal frameworks, land rights security and organizational bureaucracy. The household and the internet contain components which identify the required computing and skills to perform any activity. Finally, the loan segment relates to the terminology and patterns of domestic and non-financial loans and the availability.

Gerber and Hui, (2013)A powerful incentive to contribute to the selection of prizes tends to be for Crowdfunder's. However, though several supporters are driven to join together, the researchers find out that some are driven to donate. Another clear incentive tends to be helping others (i.e. the entrepreneur) for winning crowd founders, both families and friends (f&f), and entrepreneurial backers. Third, as part of and engaging with a group of like-minded persons and with the entrepreneur, several people consulted indicated that there are social advantages. Finally, it was inspired by others to help a cause, namely the need to aid and ensure the progress of a project.

Belleflamme, Lambert and Schwienbacher (2013) The claim argue that crowdfunding must be viewed as a new type of funding based on crowd finance rather than on experienced investors (i.e. others who are professionals at making risky investments), or people with personal ties with the founder (family and friends). They also discuss the attributes of compensation and equity crowdfunding in their theoretical analysis. They sum up three attributes to reward crowdfunding: First, it is always a pre-buying campaign for a product that is already on the market. The provider introduces the characteristics and incentives of the final good that the Crowdfunder will select from. Second, these incentive prices show the ability of customers to pay, encouraging the entrepreneurs to differentiate between two groups: customers who reap higher rewards from consuming the good would be happy to pay more than other users who wait before the commodity is accessible on the market at a cheaper price, to secure additional Community benefits from crowdfunding. This goes against the economic perception that if you are purchasing anything beforehand, you should be paid with promotions until you realize the cost of the bought product. Thirdly, crowdfunders may recognize and engage in community-based experiences as representatives of their development chain. This involves the procurement of money and active engagement in development.

Mollick (2014)Four principal objectives describe under which entities finance programmes, but further explain why these objectives sometimes intersect, so programmes may enable funders to concurrently accomplish a variety of separate goals. All four priorities are focused on four models: gifts, grants, incentives, and equities. Nevertheless, Mollick (2014) argues that these meanings are inadequate and that their terminology does not take into account two aspects: the founders' purpose and the donors' objective. The paradigm of donation puts funders in the place of philanthropists who do not anticipate a direct return. For example, in arts or humanitarian initiatives, these initiatives prevail. The Fund is given as a lender for the use of financing, as part of the funding model. For the sponsorship of the initiative, the reward-based approach provides the benefits. Different benefits have been described by Mr. Mollick (2014), including the credit in a movie, the artistic contribution in a production product, subsidized contributors, a cheaper price or a related gain. The equity model handles the participant and offers them a stake in the project and financial returns for financing.

Wardrop, Zhang, Rau and Gray, (2015)If crowdfunding encourages or contradicts hypotheses of the raising of capital from start-ups is unclear. This uneasiness is stressed in an EY & Cambridge study, where the phenomenon is under-studied and sometimes misunderstood. A literature review about crowdfunding and risk capital investment is discussed in this chapter. Both subjects share some parallels, therefore it makes sense to address risk resources in the evaluation of crowdfunding characteristics.

Previati, Galloppo, &Salustri, (2015)The approach suggested is to assess if our collection was suitable. They also established an index that tests the attractiveness of the crowdfunding ecosystems of the different countries in Europe. A fundamental predictor of the parameters surrounding this operation can be seen in the cross-funding attractiveness measure. The capacity of countries to attract entrepreneurial activities is based, according to Lieser& Groh (2011), on various factors, but mainly socioeconomic. The Index for Attractiveness consists of five parts which contain information related to the crowdfunding ecosystem: business, creativity, legal background, household and Internet skills and market loans."

In her dissertation study VanyaPandakova(2015) states that an "investment project" should be understood as a unique set of interrelated activities aimed at achieving a clearly defined goal related to the construction of new or renovation of existing buildings and facilities through new construction, reconstruction, modernization and major overhaul, of which the main feature is the execution of construction and assembly works, within a defined time period, at a set value and quality requirements o, and at predetermined permissible levels of risk.

Another study on motivation of crowdfunders is that of Cholakova and Clarysse (2015). "In addition to evaluating investors 'enthusiasm for awards and stock crowd financing projects, the effect of a project on all forms of projects on investors' option of funding for the project would be discussed concurrently. The encouragement of investors is examined by the above results of Gerber and of Hui (2013): receiving (extrinsic) prizes, assisting others, becoming part of a Group, promoting a cause (intrinsic), as well as the need for the entrepreneur to trust. Their survey consists of three separate steps: (1) they have to determine if they want to devote themselves to a presented award campaign and why. (2) respondents are told that an equity CFP project often offers the same project and questioned if they will participate and why. (3) Invitants are granted the chance so far to revisit commitments and determine again how strongly they want to make a commitment in the project (if any) and how much they want to spend as shareholders (if any).

Kelly, (2015) The Agency Hypothesis is commonly used to describe investor-enterprise partnership by scholars researching angels and risk investors but little has been established with respect to the crowdfunding partnership because it is a modern mechanism which emerged only a few years ago. In the literature on corporate angels and risk capitalists, one factor is agency risk. There is a possibility that investors have considerable difficulties in thoroughly evaluating the entrepreneur 's motives and abilities. Secondly, the researchers argued that the idea of business angels and risk capital investors contracts may not give us a full picture and concluded that much more should be clarified by the connexon between investors and entrepreneurs."

According to Ivan Georgiev (2017), investment projects are a one-time investment of cash in some assets (tangible, intangible and/or financial) to secure income and / or other positive results over a prolonged period. He also states that projects differ in too many ways: scale (large, small); assets (real, financial); areas (markets, production, etc.); objectives (cost minimization, revenue increase, capacity increase); risk (high-risk, low-risk); way of development (with its own forces, by external units) and variance (complementary, mutually exclusive), etc.

Belleflamme et al. (2013)"Call this value to the group which is a crowdfund advantage over conventional support, since this participation will improve the expertise of crowdfunders. They claimed that both reward and equity crowdfunding had group advantages. For equity crowdfunding, the rewards of the community are related to the investing experience and are related to the consumption experience for incentive crowdfunding. Examples of community advantages to investors may be the sense that they belong to a category of citizens that have committed to the very life of a product whilst the advantage to the consumption community may be voting power with respect to product design. If the crowdfunder benefits (consumption or investment benefits) are available, the entrepreneur can concentrate on them and amplify them in order to optimize the crowdfunding potential."

OBJECTIVES OF STUDY

- To understand the types of crowdfunding.
- To find the various financial sources of startups.
- To know the sources of crowdfunding platforms.
- To analyze the challenges of crowdfunding in startups.

RESEARCH METHODOLOGY

This review explores theoretical and empirical outcomes and we had gone through the academic literature of finance sector and also various sources of secondary data were used for the study.

CROWDFUNDING

Crowdfunding is an alternative way of investing firms in the early stages and in the expansion cycles. It promotes investment through the development of an online forum to finance the project for small donors and individuals through contributing small sums of money and exchanging this concept with others over a set timeline, “which is typically a few weeks. These businesses, especially the social ones, use crowdfunding as a tool, though, not just to finance their services and campaigns but also to attract others who have more interest in the concept itself than potential cash flows or income. It is known that an investor who loves a project is most definitely still involved in the goods and wishes to be his first client. The first step to ensuring potential demand is to create a community that embraces and encourages proposed activities. This is a huge asset in crowdfunding and is exceptional in contrast with other capital outlets.

The following broad categories will group the various business models used by crowdfunding platforms:

- Lending-based crowdfunding (also known as crowd lending, peer-to-peer or marketplace lending): Companies or individuals seek to obtain funds from the public through platforms in the form of a loan agreement.
- Investment-based crowdfunding (Equity crowdfunding): Companies issue equity or debt instruments to crowd- investors through a platform. The current research is dedicated to this model.
- Reward-based crowdfunding: Individuals donate to a project or business with expectations of receiving in return a non-financial reward, such as goods or services, at a later stage in exchange of their contribution.
- Invoice trading crowdfunding: a form of asset-based financing whereby businesses sell unpaid invoices or receivables, individually or in a bundle, to a pool of investors through an online platform.
- Donation-based crowdfunding: Individuals donate amounts to meet the larger funding aim of a specific charitable project while receiving no financial or material return.

VARIOUS SOURCES OF FINANCE FOR STARTUPS

Venture Capital

Raising funds through various companies and individuals to make the necessary investments in businesses run by private individuals or sole proprietors. They fund new businesses in lieu of ownership share. Venture capital firms usually provide funding only to companies with a good track record and good performance. Generally prefer to lend to companies that have high equity investments and are profitable.

Angel Investors

These are individuals or merchants. Funding is usually provided for small survival and development. They like to put their investments in a profitable and safe place. So many contingencies can be put in place just like the venture capital model. Angel investors are interested in the economic development of a particular geographical area. They focus on small investments.

Government Grants

State financial corporation and government institutions provide financial assistance in the form of grants/subsidies to the new entrepreneur or startups.

Initial Public Offerings

Companies may offer equity to public via Initial Public Offer (IPO). It is done when the company is profitable, stable management and higher demand of product and service in the market. It is not happen within a short period to issue IPO, it takes several years to place it.

Warrants

These are a different method of tools which help to people to raise long term finance to companies. Generally, they provide financial assistance to new companies or startups to minimize the risk and encourage investment. These are issued as warranties for initial maintenance in the company as part of the Reimbursement Package.
A warrant is a security that gives the owner of a warrant the right to purchase stock in a company that issues it at a predetermined (exercise) price on a future date (before the specified expiration date).
Its value is related to the market price of the stock and the purchase price (warrant price) of the stock. If the market price of the stock is higher than the warrant price, a holder warrant can be used. This includes buying stock with a warranty price. The warrant is to buy stock at a lower price than the current market price and more it can be used as soon as the price comes.

Debt Financing
Borrow money from financial institutions or individual or bank with an agreement and to repay with the fixed rate of interest at a specific period of time. Who lend money to business they receive benefit on their money that is interest. The debt finance may be secure or unsecured that is depend on the mutual understanding between lender and company. A security lender will provide a loan by pledging any property. This is because if the borrower is in a position to repay the loan by the time agreed upon as per the agreement, the money can be recovered due to this collateral. Also, the unsecured creditor will provide the loan without any collateral. Depending on the type of loan repayment it can be long term and short-term debt. Short term debt can be used for to meet the business operations and long-term debts used to purchase fixed assets such as land, machinery and building so on.

Friends and Relatives
The people who are starting business they may get money from private sources like friends and family. It may be a form of debt or some time own capital and also have a low interest rate. However, if you take a loan from relatives or friends, it should be completed with the same procedure as borrowing from a lender just like the commercial type. This means creating and executing an official debt document with the amount borrowed, interest rate, repayment terms and conditions.

Banks and Other Commercial Institutions
Banks and other commercial lenders are well-known sources of business financing. Most lenders need a solid business plan, positive reports and affiliates. But these are usually hard to come by in a business start-up. However after the business is done and the profit and loss statements, cash flow budgets and net value statements are provided, the company can take additional funds.

Commercial Finance Companies
Businesses rely on commercial finance companies when they are unable to obtain financing from other commercial sources. Usually these companies pay more attention to yours than enough to repay the money given than the positive reports of the business and the profit estimate. It is not possible to get a loan from a finance company without proper assets or guarantees for the business. However, borrowing from finance lenders is usually less expensive than from commercial lenders.

Government Programs
Central, state and local governments are implementing a number of programs to provide financial assistance to new businesses or small businesses. Governments will always help in the form of subsidies to repay the loans normally taken. The lender is guaranteed by obtaining a loan by mortgaging the limited assets in the business.

Bonds
It is a financial instrument to raise fund for business. There are several types of bonds are available in the market. The bonds may be short term or long term. To meet daily business operation use short term bonds and for purchase of fixed assets and modification of business used long term. Bonds have fixed interest rate and repayable on a specific period of time.

CROWDFUNDING PLATFORMS

Kickstarter:
It is first crowdfunding online platform in India. It was setup in April 2009. It mainly funding for creative projects like technology, music, film etc. it provides simple, safe and reliable method for generating funds through online platform. It collects 5% of fee on total amount for providing such services, if funding is not successful no fee will be collected. It was registered under the income tax act as a charitable trust. The people who are contributing fund, they can tax deduction under sec. 80G i.e 50% of the funding amount.

Wishberry
It raises fund for creative and innovative thoughts. It is a reward-based funding plat form to generate funds for innovative and creative thoughts. It mainly focuses on nine zones for access to risk less funding in India - technology, games and apps, arts, design, film, music, theatre, publishing. It was founded in 2011 by AnshulikaDubey, Priyanka Agarwal. The people who are contribute money for the project and in return they get rewards from the project holders.

Indiegogo
It was American crowdfunding platform founded in 2008 by DanaeRingelmann, Slava Rubin, and Eric Schell. It allows people for funding on charity, business startup or innovative ideas. After completion of successful funding or raising amount, they charge 5% fee on the total amount.

Fueladream
It is a platform for funding money for individuals, charities, and firms for creative ideas, causes, events and community activities in India. It was setup in April 2016 in India. The people who want to generate money, they can display it as a story or thoughts in their platform. They have managed more than 700 campaign so far.

Ketto
It is an online crowdfunding platform in India. It is first platform to provide donation based and peer to peer crowdfunding. They provide the funding services across the country for medical to disaster relief. It was founded in 2012 by VarunSheth, Kunal Kapoor and ZaheerAdenwala and located at Mumbai. It raises funds for individual goals, film, sports team, medical bill payments etc.

Milaap
It is a crowdfunding online platform to provide funding services anyone throughout India for sports, education, medical, and disaster relief, medical and other individual causes. It was founded by young and enthusiastic entrepreneurs Milaap in 2010. At the beginning they raised funds for rural project and small entrepreneurs, later days widely developed by Indian to raise funds from family, friends and social networks for charities and other causes.

CHALLENGES OF CROWDFUNDING

People think that making money through crowdfunding is very easy. But it is not easy for investors to set up a good project to show their support.

- Crowdfunding is not new in India. In ancient times donations were collected from the people and inns and halls were built. But implementing it online is a new thing.
- It is a bit difficult to implement due to lack of proper understanding and trust of the people in India. Winning trust among the people is a big challenge as business is done online.
- To promote long-term credibility and transparency in the Indian industry, the crowdfunding platform needs to be approached in advance.
- Crowdfunding should ultimately look towards building offline debt to create collective awareness and promote larger partnerships.

CONCLUSION

Crowdfunding is a new concept to raise the funds needed to start a business. It is moving fast for fundraising. It is gaining legal legitimacy abroad and is moving forward with a unique set of policies. The growth of small and medium scale industries will be accelerated by raising awareness in India on the concept of crowdfunding. It serves as an incentive to set up new companies and bring new ideas into reality.

REFERENCE

[1] Pandakova, Vanya (2015), improving the management of investment projects in the construction of shopping malls, Dissertation work for the acquisition of Doctor's School, Faculty of Economics, Faculty of Economics, Varna (autoreprefect),
[2] Georgiev, Iv. Fundamentals of Investing. University of National and World Economy, Sofia, 2017.
[3] Gerber, E. and Hui, J. (2013). Crowdfunding: Motivations and Deterrents for Participation. ACM Transactions on Computer-Human Interaction, 20(6), article no. 34. From: http://dl.acm.org/citation.cfm?id=2530540
[4] Bellaflamme, P., Lambert, T. and Schwienbacher, A. (2013). Crowdfunding: Tapping the Right Crowd. Journal of Business Venturing, 29(5), pp. 585-609. From: http://papers.ssrn.com/sol3 /papers.cfm?abstract_id=1836873
[5] Wardrop, R., Zhang, B., Rau, R. and Gray, M. (2015). Moving mainstream: The European alternative finance benchmarking report. University of Cambridge & EY. From: http://www.jbs.cam.ac.uk/index.php?id=6481#.V ktKw4R93FI
[6] Cholakova, M. and Clarysse, B. (2015). Does the Possibility to Make Equity Investments in Crowdfunding Projects Crowd Out Reward-Based Investments? Entrepreneurship Theory and Practice, 39(1), pp. 145-172. From: http://onlinelibrary.wiley.com/doi/10.1111/etap.1 2139/abstract
[7] Kenny, D. A., Kaniskan, B., &McCoach, D. B. (2015). The performance of RMSEA in models with small degrees of freedom. Sociological Methods & Research, 44(3), 486–507. http://doi.org/10.1177/0049124114543236
[8] Previati, D., Galloppo, G., &Salustri, A. (2015). Crowdfunding en la Unión Europea: factoresimpulsores y atractivo. Papeles de Economía Española, 146, 104–120.
[9] Mollick, E. (2014). The dynamics of crowdfunding: An exploratory study. Journal of Business Venturing, 29(1), 1–16. http://doi.org /10.1016/j.jbusvent.2013.06.005
[10] http://campusdiaries.com/stories/top-10-crowd-funded-projects-in-india
[11] http://indiacorplaw.blogspot.in/2011/11/crowd-funding-and-its- regulation.
[12] Agrawal, Ajay K, Catalini Christian & GoldfarAvi" "The geography of crowd funding" Technical Report, National Bureau of Economics Research 2011.
[13] http://www.legallyindia.com/crowdfundingmantr as-for-start-ups-and-smes
[14] http://indiacrowdfunding.wordpress.com.
[15] FrancescaDiPietroaVincenzoButticèb "Institutional characteristics and the development of crowdfunding across countries" International Review of Financial Analysis Volume 71, October 2020, 101543
[16] https://www.businessnewsdaily.com/4134-what-is-crowdfunding.html
[17] https://articles.bplans.com/how-to-get-your-business-funded/
[18] https://www.extension.iastate.edu/agdm/wholefa rm/pdf/c5-92.pdf
[19] https://saviance.com/whitepapers/Understanding _Crowdfunding.pdf